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SUBJECT: LABOR STRIKE SEASON IN KOREA: WINDS OF CHANGE?

SUMMARY

11. (U) As part of an annual ritual, labor unions throughout Korea are pressing their employers for concessions. Strikes and threats of strikes are affecting many key areas of industry ranging from the largest steel manufacturer (POSCO) to the Korean Stock Exchange (KRX). Although these strikes are not a new phenomenon, they draw greater international attention in light of the ongoing KORUS FTA negotiations and because of Korea's desire to portray itself as fertile ground for foreign investment. This cable provides an overview of the more prominent labor actions in the weeks leading up to the annual summer vacation, noting that strike activity appears to be on the decline. END SUMMARY.

HYUNDAI MOTORS

12. (U) Beginning on June 26 as a work slow-down initiative, unionized workers at Hyundai Motor stopped working for as many as 6 hours a day, demanding a 9.1 percent pay increase and better working conditions. After a month of failed negotiations, representatives from the two sides reached a last-hour deal on the eve of the summer vacation season and with the threat of a full-scale strike looming. Most estimates place Hyundai's losses as a result of the work slow-down and loss of exports in the range of 1.3 billion dollars. (NOTE: In past years, workers have worked additional hours before and after strikes to make up for lost production thereby avoiding long-term impacts on sales and production. END NOTE.) The Financial Times noted that labor unrest has been cited as one of the biggest issues preventing Hyundai from joining the ranks of top global carmakers. This year's strike marks the 12th straight year of strikes for the company.

POSCO

13. (U) Located in Pohang, North Kyongsang Province, POSCO is Korea's largest steel manufacturer and the 4th largest producer in the world. On July 13, approximately 2,000 construction workers occupied POSCO's headquarters after negotiations with POSCO's subcontracting companies failed to yield desired concessions. The workers refused to negotiate directly with the Pohang Construction Companies, the direct employer of the workers, citing complex subcontracting policies that limit POSCO's involvement and responsibility

for the working-level employees.

14. (U) Given that there is not a direct connection between the construction workers and POSCO, President Roh deemed the occupation illegal and threatened to use force to remove the occupants. In light of the aftermath of a similar "illegal strike" by the Korea Rail Workers Union where the union was fined an estimated 2.4 million dollars, workers decided to depart the POSCO headquarters without further clashes with police.

STICKS TO CARROTS

15. (U) In addition to Hyundai Motors and POSCO, the Korean Stock Exchange (KRX) and Kia Motors have also faced labor strikes in recent weeks. Noticeably absent from the list of striking unions is Hyundai Heavy Industries which has avoided strikes for the 12th straight year. Using carrots rather than sticks has allowed Hyundai Heavy Industries to keep employees happy and keep production going. In a press statement on July 25, Labor Minister Lee Sang-soo said in reference to the age-old practice of striking to gain more power, "This is a culture we should overcome." Reports also indicate that workers at both Hyundai Heavy Industries and Hyundai Motors both received comparable compensation packages with the difference being the high price of lost production that Hyundai Motors paid to reach the same result as its brother company.

OUTLOOK

16. (U) Although studies by the Korea Labor Institute show the days lost to labor unrest are on the decline (from 144 lost days per 1000 wage workers in 2000 to 81 days in 2004), foreign investors and experts still consider Korea as having some of the world's most hostile workers. As Korea continues to strive for greater globalization, they are more sensitive to how their markets are perceived by the outside world.

17. (U) Labor unions at major automakers and steelmakers recently voted to combine under a single industrial union to carry more weight into bargaining and striking situations; further strengthening the position of labor unions. Starting in 2007, more than one labor union will be allowed in each workplace thereby increasing the potential for employers to face strikes on multiple fronts in next summer's wage negotiation season.

COMMENT

18. (U) The two largest trade unions in Korea, the Korean Confederation of Trade Unions (KCTU) and the Federation of Korean Trade Unions (FKTU) are diverging in their tactics as well. While KCTU sticks to hard-line measures, FKTU recently signed an agreement to cooperate with the Korea Trade and Investment Promotion Agency to help attract foreign investment. Following the current season of labor struggles, both unions will need to work hard to convince the public as well as their own members that the costs of striking yield a satisfactory outcome, since local businesses and communities were also adversely affected by production stoppages.

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